

**REPORT OF THE AUDITOR-GENERAL TO THE KWAZULU-NATAL
PROVINCIAL LEGISLATURE AND THE COUNCIL ON THE FINANCIAL
STATEMENTS AND PERFORMANCE INFORMATION OF THE JOZINI
MUNICIPALITY FOR THE YEAR ENDED 30 JUNE 2009**

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the accompanying financial statements of the Jozini Municipality which comprise the balance sheet as at 30 June 2009, the income statement and the cash flow statement for the year then ended, a summary of significant accounting policies, other explanatory notes as set out on pages 45 to 56.

The accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation of these financial statements in accordance with the entity-specific basis of accounting, as set out in accounting policy note 1 and in the manner required by the Municipal Finance Management Act, 2003 (Act No. 56 of 2003) (MFMA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Auditor-General's responsibility

3. As required by section 188 of the Constitution of the Republic of South Africa, 1996, read with section 4 of the Public Audit Act, 2004 (Act No. 25 of 2004) (PAA) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
4. I conducted my audit in accordance with the International Standards on Auditing read with *General Notice 616 of 2008*, issued in *Government Gazette No. 31057 of 15 May 2008*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.
5. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

6. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

7. In my opinion the financial statements of the Jozini Municipality as at 30 June 2009 have been prepared, in all material respects, in accordance with the basis of accounting as set out in accounting policy note 1 to the financial statements and in the manner required by the MFMA.

Emphasis of matters

Without qualifying my opinion I draw attention to the following matters:

Basis of accounting

8. The municipality's policy is to prepare financial statements on the entity-specific basis of accounting, as set out in accounting policy note 1.

Going concern

9. Although Jozini Municipality has prepared financial statements on a going concern basis and continues to operate, there are a number of factors prevalent that indicate that its financial sustainability is under threat. The municipality incurred a net loss of R5 899 080 for the year ended 30 June 2009 and as at that date, the municipality's accumulated deficit increased from R436 763 to R6 335 842. Furthermore, it was noted that concomitant asset investments and cash and bank are insufficient to support the existence of trust funds with a shortfall of R7 422 476. Salaries of R20 059 046 (councillors included) and general operating expenses of R16 287 982 represent 120,84% of income totalling R30 078 273 (excluding capital grants).

The extent to which effective service delivery can be achieved is questionable.

Contingent liability

10. The municipality is engaged in a dispute with the Department of Housing for land sales at Ingwavuma. The ultimate outcome of the matter could not be determined at 30 June 2009. Furthermore, there are litigation and claims for building regulators. A contingent liability of R800 000 and R350 000 has been disclosed in the financial statements under notes 25.1 and 25.2, respectively.

OTHER MATTERS

Without qualifying my opinion, I draw attention to the following matters that relate to my responsibilities in the audit of the financial statements:

Unaudited supplementary schedules

11. The supplementary information set out on pages 57 to 62 does not form part of the financial statements and is presented as additional information. I have not audited these schedules and accordingly I do not express an opinion thereon.

Governance framework

12. The governance principles that impact the auditor's opinion on the financial statements are related to the responsibilities and practices exercised by the accounting officer and executive management and are reflected in the key governance responsibilities addressed below:

Key governance responsibilities

13. The MFMA tasks of the accounting officer with a number of responsibilities concerning financial and risk management and internal control. Fundamental to achieving this is the implementation of certain key governance responsibilities, which I have assessed as follows:

No.	Matter	Y	N
Clear trail of supporting documentation that is easily available and provided in a timely manner			
1.	No significant difficulties were experienced during the audit concerning delays or the availability of requested information.	☐	
Quality of financial statements and related management information			
2.	The financial statements were not subject to any material amendments resulting from the audit.		☐
3.	The annual report was submitted for consideration prior to the tabling of the auditor's report.	☐	
Timeliness of financial statements and management information			
4.	The annual financial statements were submitted for auditing as per the legislated deadlines section 126 of the MFMA.	☐	
Availability of key officials during audit			
5.	Key officials were available throughout the audit process.	☐	
Development and compliance with risk management, effective internal control and governance practices			
6.	Audit committee		
	The municipality had an audit committee in operation throughout the financial year.	☐	
	The audit committee operates in accordance with approved, written terms of reference.	☐	
	The audit committee substantially fulfilled its responsibilities for the year, as set out in section 166(2) of the MFMA.	☐	
7.	Internal audit		
	The municipality had an internal audit function in operation throughout the financial year.	☐	
	The internal audit function operates in terms of an approved internal audit plan.	☐	
	The internal audit function substantially fulfilled its	☐	

No.	Matter	Y	N
	responsibilities for the year, as set out in section 165(2) of the MFMA.		
8.	There are no significant deficiencies in the design and implementation of internal control in respect of financial and risk management.	☐	
9.	There are no significant deficiencies in the design and implementation of internal control in respect of compliance with applicable laws and regulations.	☐	
10.	The information systems were appropriate to facilitate the preparation of the financial statements.	☐	
11.	A risk assessment was conducted on a regular basis and a risk management strategy, which includes a fraud prevention plan, is documented and used as set out in section 62(1)(c)(i) of the MFMA.	☐	
12.	Delegations of responsibility are in place, as set out in section 79 of the MFMA.	☐	
Follow-up of audit findings			
13.	The prior year audit findings have been substantially addressed.	☐	
14.	SCOPA / Oversight resolutions have been substantially implemented.	☐	
Issues relating to the reporting of performance information			
15.	The information systems were appropriate to facilitate the preparation of a performance report that is accurate and complete.	☐	
16.	Adequate control processes and procedures are designed and implemented to ensure the accuracy and completeness of reported performance information.		☐
17.	A strategic plan was prepared and approved for the financial year under review for purposes of monitoring the performance in relation to the budget and delivery by the municipality against its mandate, predetermined objectives, outputs, indicators and targets section 68/87 of the MFMA.	☐	
18.	There is a functioning performance management system and performance bonuses are only paid after proper assessment and approval by those charged with governance.	☐	

14. The drivers of the municipality achieving good results are as a result of the commitment that management and staff have shown throughout the audit as well as good internal controls and governance practices being implemented and maintained.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Report on performance information

15. I have reviewed the performance information as set out on pages 14 to 28.

The accounting officer's responsibility for the performance information

16. In terms of section 121(3)(c) of the MFMA, the annual report of a municipality must include the annual performance report of the municipality prepared by the

municipality in terms of section 46 of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Auditor-General' responsibility

17. I conducted my engagement in accordance with section 13 of the PAA read with *General Notice 616 of 2008. issued in Government Gazette No. 31057 of 15 May 2008* and section 45 of the MSA.
18. In terms of the foregoing my engagement included performing procedures of a review nature to obtain sufficient appropriate evidence about the performance information and related systems, processes and procedures. The procedures selected depend on the auditor's judgement.
19. I believe that the evidence I have obtained is sufficient and appropriate to provide a basis for the findings reported below.

Findings on performance information

Non-compliance with regulatory requirements

- 20.1 Performance targets were not in all respects practical and realistic and did not correspond with the available resources within the municipality's capacity as required in terms of chapter 6, section 41(i) (b) of the MSA and chapter 3, section 12(1), 12(2)(e) of the rules and regulations in terms of that act.
- 20.2 The integrated development plan (IDP) was not sent timeously to the MEC for approval as required in terms of chapter 5, section 32 of the MSA.
- 20.3 The mid-year assessment of performance was not performed timeously as required in terms of chapter 8, section 72(1)(a) of the MFMA.
- 20.4 No evidence could be furnished to substantiate the fact that the mid-year assessment was submitted timeously to the National Treasury and the provincial treasury as required in terms of chapter 8, section 72(1)(b) of the MFMA.
- 20.5 The SDBIP was not approved by the mayor within 28 days after approval of the budget as required in terms of chapter 8, section 72(1) of the MFMA.
- 20.6 No evidence could be produced to substantiate that the annual report had been advertised in the media for the local community to submit representations in connection with the annual report. No evidence could be produced indicating that a copy of the annual report was forwarded to the Department of Local Government and Traditional Affairs as required in terms of chapter 4, section 21(a) and (b) of the MSA and chapter 12, section 127(5) & (6) of the MFMA.
- 20.7 Key performance indicators in the IDP are not aligned and none of the general key performance indicators are included in the IDP as required in terms of chapter 6, section 43 of the MSA.

- 20.8 No evidence could be produced to indicate that a mid-year review was performed comparing the budget to actual expenditure as required in terms of chapter 8, section 72(1) of the MFMA.
- 20.9 No evidence could be produced indicating that a report has been compiled on the performance of service providers which identifies the roles and responsibilities of the relevant parties as required in terms of chapter 6, section 46 and chapter 12, section 121(b) of the MSA.
- 20.10 There is no correlation between the IDP and the PMS framework as required in terms of chapter 6, section 46 of the MSA and chapter 12, section 121(b) of the MFMA.
- 20.11 Evidence could not be produced to substantiate that the annual performance report had been approved by the council as required in terms of chapter 12, section 127(2) of the MFMA and section 11(1) of the rules and regulations in terms of that act.

Usefulness and reliability of reported performance information

21. The following criteria were used to assess the usefulness and reliability of the information on the municipality's integrated development plan:
- Consistency: Has the municipality reported on its performance with regard to its objectives, indicators and targets in its approved integrated development plan?
 - Relevance: Is the performance information as reflected in the indicators and targets clearly linked to the predetermined objectives and mandate. Is this specific and measurable, and is the time period or deadline for delivery specified?
 - Reliability: Can the reported performance information be traced back to the source data or documentation and is the reported performance information accurate in relation to the source data or documentation?

The following audit findings relate to the above criteria:

Reported performance information not smart principle

22. The indicators, targets and measures for section 57 employees and the organisation were not:
- specific in clearly identifying the nature and the required level of performance measurable in identifying the required performance
 - time bound in specifying the time period or deadline for delivery.

Inconsistent priorities/objectives and key performance indicators

23. The development priorities, objectives and key performance indicators included in the IDP differ from those included in the performance plans of the municipal manager and the managers directly accountable to the municipal manager.

APPRECIATION

24. The assistance rendered by the staff of the Jozini Municipality during the audit is sincerely appreciated.

Auditor - General

Pietermaritzburg

30 November 2009



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence